

AR54

ANNUAL REPORT 1971



Anglo-Canadian Telephone Company

715 VICTORIA SQUARE, MONTREAL 126, P.Q.

Directors

ROGER CHARBONNEAU
JAMES J. CLERKIN, JR.
JOHN H. E. COLBY
JOHN J. DOUGLAS
THEODORE S. GARY

CAMERON HOUGH
DONALD C. POWER
DAVID L. TORREY
LESLIE H. WARNER

Officers

JOHN J. DOUGLAS
President
THEODORE S. GARY
Vice-President

CAMERON HOUGH
Vice-President, Secretary and Treasurer
HAROLD H. HOWLETT
Assistant Secretary

RICHARD F. HARDY, *Assistant Treasurer*

Transfer Agents and Registrars

CUMULATIVE PREFERRED STOCK

The Royal Trust Company, Montreal, P.Q., Canada

Co-Transfer and Co-Registrar Offices at

Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

COMMON STOCK

The Company

To the Shareholders:

March 14, 1972

Submitted herewith is the Thirty-Seventh Annual Report of Anglo-Canadian Telephone Company covering operations of the Company and its subsidiaries for the year 1971 with comparative results for the preceding year.

Consolidated net income for the year ended December 31, 1971 amounted to \$15,001,000 compared with \$12,536,000 in 1970, an increase of \$2,465,000 or 20%. The increase in net income resulted primarily from the continued growth and demand for telephone service in the areas served by our subsidiaries and a marked improvement in the Canadian economy in the latter part of the year. (The Federal Government's removal, effective July 1, 1971, of its 3% income tax surtax and its subsequent reduction of 7% in corporate income taxes for the second half of the year gave added stimulation to the economic vitality displayed during the last 6 months of the year.) However, increases in the costs of operations and the costs of raising the necessary funds to finance the companies' expansion programs have continued, and the companies have found it necessary to file applications for approval of new rate schedules. Effective September 1, 1971, the first general increase in telephone rates in more than 12 years was granted by the Canadian Transport Commission to British Columbia Telephone Company, which is expected to produce approximately \$9,400,000 in additional revenues during the full year of 1972. Also effective September 1, 1971, the Public Service Board of Quebec approved increases in certain non-recurring charges to customers of Québec-Téléphone. In addition, on January 20, 1972, the Board authorized new rates for certain auxiliary services previously provided at no cost to the customers.

British Columbia Telephone Company (Brico) and its subsidiary, Okanagan Telephone Company, serve over 99% of the telephones in the Province of British Columbia and are the principal source of Anglo's earnings. Gross investment in plant during 1971 totaled over \$113,000,000 — by far the highest single year to date — reflecting the increasing demand for telephone and other communications services in the fast-growing Province of British Columbia. Telephones in service increased by 62,107 during the year and at December 31, 1971 totaled 1,099,791. Total operating revenues rose to \$199,892,000 in 1971, an increase of \$25,022,000 or 14% over the \$174,870,000 reported for the previous year. Net income available for ordinary shares was \$16,024,000 for the year, an increase of \$1,363,000 or 9% over the \$14,661,000 earned in 1970. During the year, Anglo invested an additional \$10,879,000 in the ordinary shares of Brico to maintain its approximately 50% interest in that company.

Québec-Téléphone, a 55% owned subsidiary of the Company, reported revenues of \$30,954,000 in 1971 compared with \$28,363,000 the previous year, an increase of \$2,591,000 or 9%. Net income available for common shareholders for the year was \$2,902,000, which was exclusive of a non-recurring foreign exchange gain of \$251,000, an increase of \$461,000 or 19% over the \$2,441,000 earned in 1970. Earnings per average common share (before foreign exchange gain equal to \$.13 per share) were \$1.49 as compared with \$1.40 a year earlier. Québec-Téléphone invested more than \$15,700,000 during the year to bring new and improved service to its subscribers, and at year-end Québec served 163,226 telephones, an increase of 10,526 for the year. Anglo's investment in Québec-Téléphone common stock was increased by \$1,922,000 through the purchase of common shares offered on a rights basis to shareholders in April 1971.

Compania Dominicana de Telefonos, C. por A., a wholly-owned subsidiary of Anglo, operates the telephone system in the Dominican Republic. Total operating revenues, reflecting a substantial increase in the number of telephones served, increased \$2,089,000 in 1971 over the previous year, rising to \$10,396,000, a gain of 25%. Net income available to Anglo increased to \$3,765,000 in 1971 from \$2,477,000 a year earlier, representing a gain of \$1,288,000 or 52%. During 1971 telephones in service increased by 10,039, almost double the increase in 1970, and totaled 53,164 at year-end 1971. Gross investment in plant during 1971 totaled more than \$7,000,000, an increase of 48% over that invested in 1970.

Construction programs for the telephone subsidiaries for the year 1972 as now planned total approximately \$156,000,000. With the economy showing signs of continued improvement, we again anticipate a strong demand for new and improved telephone services in the areas served by our subsidiaries.

On Behalf of the Board of Directors



President

Consolidated Balance Sheets

December 31, 1971 and 1970

Assets

1971 **1970**

(Thousands of dollars)

FIXED ASSETS:

| | | |
|--|----------------|----------------|
| Telephone plant, at cost | \$1,026,985 | \$ 915,035 |
| Accumulated depreciation | (232,087) | (204,603) |
| | <u>794,898</u> | <u>710,432</u> |
| Cost of investments in subsidiaries in excess of underlying book value as of the dates of acquisition | 33,114 | 33,073 |
| | <u>828,012</u> | <u>743,505</u> |

| | | |
|---|--------------|--------------|
| INVESTMENTS AND OTHER ASSETS, at cost | <u>4,580</u> | <u>2,491</u> |
|---|--------------|--------------|

CURRENT ASSETS:

| | | |
|---|---------------|---------------|
| Cash | 3,013 | 1,981 |
| Receivables (including unbilled revenues), less allowances for doubtful accounts of \$811,000 and \$987,000 at the respective dates | 31,364 | 26,896 |
| Materials and supplies, at average cost | 13,117 | 12,674 |
| Prepayments and other | 5,603 | 4,617 |
| | <u>53,097</u> | <u>46,168</u> |

DEFERRED CHARGES:

| | | |
|--|-------------------|-------------------|
| Unamortized cost of issuing long-term debt | 1,110 | 846 |
| Other deferred charges | 4,890 | 4,315 |
| | <u>6,000</u> | <u>5,161</u> |
| | <u>\$ 891,689</u> | <u>\$ 797,325</u> |

Signed on behalf of the Board:

JOHN J. DOUGLAS, Director.

DAVID L. TORREY, Director.

The accompanying notes form an integral part of these consolidated financial statements.

Shareholders' Interest and Liabilities

| | 1971 | 1970 |
|--|------------------------|-------------------|
| | (Thousands of dollars) | |
| COMMON SHARE EQUITY: | | |
| Common shares (Note 4) | \$ 12,037 | \$ 12,037 |
| Premium on common shares | 34,218 | 34,218 |
| Retained earnings (Note 5) | 74,602 | 61,746 |
| Anglo-Canadian common share equity | 120,857 | 108,001 |
| Minority interest in ordinary and common shares and retained earnings | 103,316 | 88,582 |
| Total common share equity | 224,173 | 196,583 |
| PREFERRED AND PREFERENCE SHARES (See page 8): | | |
| Anglo-Canadian preferred shares | 37,500 | 37,500 |
| Subsidiaries preference and preferred shares (held by out- side shareholders) | 95,804 | 95,940 |
| Total preferred and preference shares | 133,304 | 133,440 |
| LONG-TERM DEBT (See page 8) | 376,484 | 324,735 |
| SHORT-TERM DEBT (Note 6): | | |
| Notes payable to General Telephone & Electronics Corporation (Parent Company) (interest at prime rate) .. | — | 15,000 |
| Notes payable to banks (substantially at prime rate) | 13,075 | 13,700 |
| Commercial paper (interest below prime rate) | 22,630 | 15,404 |
| | 35,705 | 44,104 |
| CURRENT LIABILITIES (Note 6): | | |
| Current portion of long-term debt | 1,953 | 1,228 |
| Accounts payable | 14,909 | 10,977 |
| Due to affiliates | 5,376 | 4,685 |
| Advance billings and customer deposits | 6,087 | 5,242 |
| Dividends | 2,886 | 2,717 |
| Accrued interest | 6,897 | 5,236 |
| Accrued taxes | 928 | 1,524 |
| | 39,036 | 31,609 |
| DEFERRED CREDITS (Note 7) | 82,987 | 66,854 |
| CONSTRUCTION PROGRAM AND COMMITMENT (Notes 9 and 10) | \$ 891,689 | \$ 797,325 |

Consolidated Statements of Income

For the years ended December 31, 1971 and 1970

| | 1971 | 1970 |
|---|------------------------|------------------|
| | (Thousands of dollars) | |
| OPERATING REVENUES: | | |
| Local service | \$110,750 | \$100,865 |
| Toll service | 123,637 | 105,809 |
| Miscellaneous | 13,149 | 11,488 |
| Provision for doubtful accounts | (1,975) | (2,703) |
| | <u>245,561</u> | <u>215,459</u> |
| OPERATING EXPENSES AND TAXES: | | |
| Maintenance | 48,484 | 41,732 |
| Depreciation (Note 3) | 46,353 | 41,148 |
| Traffic | 20,508 | 17,699 |
| Commercial | 16,470 | 14,081 |
| General, administrative and other | 27,677 | 23,564 |
| General taxes | 9,770 | 8,806 |
| Provision for Federal and Provincial income taxes—current | 9,135 | 9,607 |
| —deferred | 12,720 | 12,063 |
| | <u>191,117</u> | <u>168,700</u> |
| Operating income | 54,444 | 46,759 |
| MISCELLANEOUS INCOME—NET (Note 8) | <u>2,476</u> | <u>2,112</u> |
| | 56,920 | 48,871 |
| INTEREST AND OTHER DEDUCTIONS: | | |
| Interest on long-term debt | 22,556 | 17,241 |
| Other interest and amortization of discount and cost of issuing long-term debt | 5,021 | 5,715 |
| | <u>27,577</u> | <u>22,956</u> |
| Income before outside shareholders' interest | 29,343 | 25,915 |
| OUTSIDE SHAREHOLDERS' INTEREST: | | |
| Preference and preferred dividends of subsidiaries | 4,989 | 5,001 |
| Minority interest in net income of subsidiaries | 9,353 | 8,378 |
| | <u>14,342</u> | <u>13,379</u> |
| Consolidated net income | <u>\$ 15,001</u> | <u>\$ 12,536</u> |

The accompanying notes form an integral part of these consolidated financial statements.

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Consolidated Statements of Retained Earnings

For the years ended December 31, 1971 and 1970

| | 1971 | 1970 |
|---|------------------------|------------------|
| | (Thousands of dollars) | |
| BALANCE AT BEGINNING OF YEAR | \$ 61,746 | \$ 51,269 |
| ADD— | | |
| Consolidated net income | 15,001 | 12,536 |
| | <u>76,747</u> | <u>63,805</u> |
| DEDUCT— | | |
| Dividends paid or provided for on Cumulative Preferred shares | | |
| 4½ % Cumulative Preferred shares | 281 | 281 |
| \$2.90 Cumulative Preferred shares | 363 | 363 |
| \$2.65 Cumulative Preferred shares | 848 | 848 |
| \$3.15 Cumulative Preferred shares | 567 | 567 |
| Share issue expenses | 86 | — |
| | <u>2,145</u> | <u>2,059</u> |
| BALANCE AT END OF YEAR (Note 5) | <u>\$ 74,602</u> | <u>\$ 61,746</u> |

Consolidated Statements of Source and Use of Funds

For the years ended December 31, 1971 and 1970

| | 1971 | 1970 |
|---|------------------------|------------------|
| | (Thousands of dollars) | |
| SOURCE OF FUNDS: | | |
| From operations— | | |
| Consolidated net income | \$ 15,001 | \$ 12,536 |
| Add—Expenses not requiring cash outlay | | |
| Depreciation | 46,353 | 41,148 |
| Deferred income taxes | 12,720 | 12,063 |
| Other | 3,993 | 3,247 |
| | <u>78,067</u> | <u>68,994</u> |
| Sale or issuance of equity securities of subsidiaries | 11,081 | — |
| Sale or issuance of long-term debt | 88,607 | 72,204 |
| | <u>\$177,755</u> | <u>\$141,198</u> |
| USE OF FUNDS: | | |
| Construction and other plant additions | \$131,050 | \$109,568 |
| Reduction of long-term debt | 36,858 | 1,202 |
| Dividends paid on preferred shares | 2,059 | 2,059 |
| Decrease in short-term debt | 8,399 | 24,754 |
| Increase (decrease) in working capital | (498) | 132 |
| Other | (113) | 3,483 |
| | <u>\$177,755</u> | <u>\$141,198</u> |

The accompanying notes form an integral part of these consolidated financial statements.

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Summary of Preferred and Preference Shares and Long-Term Debt

December 31, 1971

| | Shares | Amount (Thousands of Dollars) |
|--|---------|-------------------------------------|
| PREFERRED AND PREFERENCE SHARES: | | |
| Anglo-Canadian Preferred Shares, par value \$50 per share cumulative dividend. Authorized 1,000,000 shares redeemable at \$53 per share, outstanding 750,000 shares— | | |
| 4½ % Cumulative Preferred shares | 125,000 | \$ 6,250 |
| \$2.90 Cumulative Preferred shares | 125,000 | 6,250 |
| \$2.65 Cumulative Preferred shares | 320,000 | 16,000 |
| \$3.15 Cumulative Preferred shares | 180,000 | 9,000 |
| | | <u>37,500</u> |
| Subsidiaries Preference and Preferred Shares (held by outside shareholders) | | |
| British Columbia Telephone Company— | | |
| 6% Cumulative Preference and Preferred shares (\$100 par value) | | 5,500 |
| 4¾ % to 5¾ % Cumulative Redeemable Preferred shares (\$100 par value) .. | | 48,000 |
| 4.84% and 6.80% Cumulative Redeemable Preferred shares (\$25 par value) | | 30,000 |
| Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)— | | |
| 40¢ Cumulative Redeemable Preferred shares (\$9 par value) | | 450 |
| Québec-Téléphone— | | |
| 5% Cumulative Sinking Fund Redeemable Preferred shares (\$20 par value) | | 1,917 |
| 4¾ % Cumulative Redeemable Preferred shares (\$20 par value) | | 8,000 |
| 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A (\$15 par value) | | 1,937 |
| | | <u>95,804</u> |
| Total preferred and preference shares | | <u>\$133,304</u> |
| LONG-TERM DEBT: | | |
| Anglo-Canadian Telephone Company— | | |
| 6½ % Sinking Fund Debentures, Series A, due 1983 (Note 11) | | \$ 2,860 |
| Bank term loan, at bank's prime rate plus 1%, due 1973-1976 | | 9,500 |
| British Columbia Telephone Company— | | |
| First Mortgage Bonds 4¾ % to 9¾ %, due 1975-1995 | | 312,000 |
| Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)— | | |
| General Mortgage Sinking Fund Bonds 5% to 6½ % due 1975-1986 | | 5,954 |
| Québec-Téléphone— | | |
| First Mortgage Redeemable Sinking Fund Bonds 5½ % to 9¾ % due 1982-1992 | | 37,058 |
| General Mortgage Sinking Fund Bonds 5% to 6% due 1976 to 1983 | | 7,661 |
| Compania Dominicana de Telefonos, C. por A.— | | |
| Notes payable 6% to 8½ % due 1973-1983 | | 7,102 |
| Total principal amount | | <u>382,135</u> |
| Less—Unamortized discount on long-term debt | | 5,651 |
| Total long-term debt | | <u>\$376,484</u> |

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 1971

1. PRINCIPLES OF CONSOLIDATION

All subsidiaries have been included in the consolidated financial statements. Dominican pesos have been converted at par with the Canadian dollar.

| The subsidiaries and equity ownership at December 31, 1971 are as follows: | Percent Owned |
|--|------------------|
| British Columbia Telephone Company | 50.69 |
| Canadian Telephones and Supplies Ltd. | 100.00 |
| Compania Dominicana de Telefonos, C. por A. | 100.00 |
| Dominion Directory Company Limited | 100.00 |
| Québec-Téléphone | 55.15 |
| York Investment Co. Ltd. | 100.00 |

Certain reclassifications have been made to the 1970 financial statements to conform to the 1971 presentation.

2. COMPANIA DOMINICANA DE TELEFONOS, C. POR A.

Compania Dominicana de Telefonos, C. por A. is a telephone operating company in the Dominican Republic. The Company's investment in and amounts due from Compania Dominicana at December 31, 1971 amounted to \$9,537,000 (\$9,326,000 in 1970) and the net assets of Compania Dominicana at that date were \$23,230,000 (\$20,299,000 in 1970). Net income of Compania Dominicana included in consolidated net income was \$3,765,000 in 1971 and \$2,477,000 in 1970.

Under the terms of the original contract made with the Government of the Dominican Republic, the Dominican Government has the right to acquire, at any time, the telephone, telegraph and radio-telegraph property and related assets and liabilities of Compania Dominicana at underlying book value.

3. DEPRECIATION OF TELEPHONE PLANT

Depreciation is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

4. COMMON SHARES, \$10 par value

Authorized — 1,700,000 shares.

Issued and outstanding — 1,203,685 shares.

5. RETAINED EARNINGS

Under the terms (the most restrictive) of the Trust Deed pursuant to which the 6½% (formerly 6%, see Note 11) Sinking Fund Debentures Series A were issued by Anglo-Canadian Telephone Company, \$4,789,000 of the consolidated retained earnings of \$74,602,000 at December 31, 1971 were restricted as to the payment of common dividends.

6. SHORT-TERM DEBT

The short-term debt has been used, directly or indirectly, to finance the subsidiaries' construction programs. This short-term debt has been excluded from current liabilities because it is expected that it will in time be refinanced by issues of long-term debt or issues of equity capital. It is also expected that the companies will continue to enter into new short-term obligations, as the construction programs continue.

7. DEFERRED CREDITS

Certain subsidiaries are presently claiming for income tax purposes capital cost allowances in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred. The unamortized balance of taxes deferred by the subsidiaries included in Deferred Credits amounted to \$82,662,000 and \$66,655,000 as of December 31, 1971 and 1970 respectively.

8. INTEREST CHARGED TO CONSTRUCTION

Miscellaneous income includes interest charged to construction of \$1,966,000 in 1971 and \$1,764,000 in 1970.

9. PENSION PLANS

All companies maintain funded pension plans for the benefit of substantially all employees. The general policy of the companies is to fund pension costs as incurred. The total pension cost for the companies, including past service costs of \$1,473,000 and \$1,245,000 was approximately \$6,283,000 and \$4,646,000 in 1971 and 1970, respectively. The estimated unfunded liability for past service costs was approximately \$16,771,000 at December 31, 1971, an increase of \$3,344,000 over such costs as of December 31, 1970. This increase is due to various pension plan improvements and changes in actuarial methods. These factors did not significantly increase the 1971 pension costs nor will future annual pension costs be significantly affected. Past service costs, plus interest thereon, are being amortized over periods not exceeding 25 years from January 1, 1965.

10. CONSTRUCTION PROGRAMS

The telephone subsidiaries 1972 construction programs as now planned approximate \$156,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and short-term debt pending permanent financing.

11. SINKING FUND DEBENTURES, SERIES A

The Company, in consideration for the consent of Debentureholders to certain modifications in the Company's Trust Deed, increased the interest rate on the outstanding Debentures from 6% to 6½% effective after August 1, 1971.

Auditors' Report

TO THE SHAREHOLDERS OF
ANGLO-CANADIAN TELEPHONE COMPANY:

We have examined the consolidated balance sheet and the summary of preferred and preference shares and long-term debt of ANGLO-CANADIAN TELEPHONE COMPANY (a Quebec company) AND SUBSIDIARIES as of December 31, 1971, and the related consolidated statements of income, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1971, and the results of operations and the source and use of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & Co.,
Chartered Accountants.

Montreal, January 31, 1972.

